

NEXT STEPS AT THE WORLD TRADE ORGANIZATION

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House Committee on Ways and Means
Subcommittee on Trade
Washington, DC

February 8, 2000

Chairman Crane, Congressman Levin, Members of the Subcommittee:

Thank you very much for this opportunity to testify before the Subcommittee on our agenda at the World Trade Organization over the coming year. I appreciate this opportunity to review our assessment of the WTO after five years, the events at last year's Ministerial Conference, the negotiations and other work we have under way in the year 2000.

INTRODUCTION

Our agenda for the year 2000 ranges from opening negotiations on agriculture and services as mandated by the Uruguay Round Agreement of 1994; to implementing and enforcing existing agreements, including several now coming fully into force; promoting the full integration of the least developed countries into the trading system; institutional reform at the WTO, with a focus on strengthening transparency; and the accession of new members, in particular China, to the organization. At the same time, we are working with other WTO members for consensus on a new Round. To reach such a consensus, as the President has said, all WTO members will have to show flexibility and accept their share of the responsibility for success.

My testimony will review each of these points, but will open with a more basic review of the record of the WTO over the past five years. And here the immediate point is clear. That is, the trading system is fundamentally sound and our participation in it is profoundly in America's interest. While the Ministerial Conference in Seattle was unable to agree on an agenda for a new negotiating Round, and the WTO has received some criticism from its members and from outside as well, on the whole the WTO is fulfilling its mission of opening new opportunities, promoting sustainable development, raising living standards and strengthening peace.

As the President recently said, there is no substitute for the confidence and credibility the WTO offers the world as trade grows. WTO membership opens world markets to our goods and services, and helps us take advantage of our competitiveness in agriculture, manufacturing and high-tech industries. It advances the rule of law in commerce, and promotes stability during economic crisis. And thus our participation and leadership in the WTO is of critical importance.

Criticisms, both from within the WTO and from outside, deserve a respectful hearing and

the WTO must respond to the legitimate issues they raise. But these were not the fundamental reason the Ministerial conference did not launch a new Round. Rather, the WTO's 135 members reached an unfortunate, but familiar, impasse on some of the major policy issues. The impasse will not fix itself; but if WTO members remember history and first principles, focus more intently on the shared benefits we derive from the open markets and rule of law represented by the WTO, and accept the shared responsibilities of developing the trading system, we can break the deadlock and move ahead.

THE CONTEXT

Our first challenge is to place the Ministerial in its proper context.

Today's WTO has its roots in the General Agreement on Tariffs and Trade, or GATT, created under President Truman after the Second World War. The leaders of the time acted in the light of their personal experience: they had seen the Smoot-Hawley Act in America and similar protectionist policies overseas deepen the Depression and contribute to the political upheavals of the 1930s. Fifteen years later, they believed that by reopening world markets they could promote growth and raise living standards; and that as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

The work they began has proceeded through five decades. Over time, as we and others abandoned the closed markets of the Depression era, we have strengthened peace by integrating first Germany and Japan, then the post-colonial world, and now the countries moving away from communist planning systems into a modern economic world. And we have fostered what amounts to a fifty-year economic boom during which the world economy grew six-fold, per capita income nearly tripled, and hundreds of millions of families escaped from poverty.

Most recently, with completion of the Uruguay Round and Congress' passage of the Uruguay Round Agreements Act in 1994, we made a fundamental advance: going well beyond the GATT agreements in addressing agriculture and services; protecting intellectual property rights; and strengthening our ability to enforce all the agreements covered by the WTO. In the WTO itself we created a small but efficient organization, with a very small budget and professional staff, to serve as a venue by which governments can agree by consensus on measures in the general interest. This is evident in the substantial further progress we have made since 1995, in conclusion of the landmark multilateral agreements on Information Technology, Basic Telecommunications and Financial Services.

Taken as a whole, these achievements have substantially improved the world trade environment and its institutions, in ways including:

- *Expansion of the Rule of Law*: In just five years, the 50 year-old trading system has been transformed from a complex set of rules and disciplines that applied fully to a relatively *few* members to a system where the rules apply to *all* members (subject to transitions)

eliminating the potential for “free riders” on the benefits of an open trading system.

- *Dispute Settlement*: Today, WTO Members rely on a set of procedures for the prompt settlement of disputes, eliminating many of the shortcomings of the earlier GATT system where the process could drag out indefinitely. While improvements to the system are still warranted, the greater certainty of the new system has led to a more prompt resolution of disputes and greater predictability in the application of rules.
- *Market Access in traditional and new areas of commerce*: Globally, the Uruguay Round is reducing manufacturing tariffs by a third; American farmers and ranchers are finding export opportunities, as a result of the first real commitments to reduce barriers and limit the use of export subsidies; for the first time in the history of the trading system services providers have also recorded real export opportunities, from accounting to telecommunications services providers. New entrants into the global marketplace, particularly small and medium-sized enterprises, are also benefitting from these new market openings and innovations.
- *Intellectual Property Rights Protection*: WTO member governments have accepted a landmark set of rules for protection of patents, copyrights, trademarks and other forms of intellectual property. This both protects the research and innovation of Americans in our most competitive industries, and creates incentives for further investment and technological progress worldwide.
- *Global Membership*: The WTO has grown by 50%, from the 90 members which joined to launch the Uruguay Round in 1986 to 135 in 1999, with another 30 members seeking to negotiate entry. More stringent requirements for membership mean acceptance of WTO rules helps to open markets to American products and promote domestic economic reform. This is especially important for countries emerging from communist planning systems and seeking to establish market-based economies. Thus, membership in the WTO is a key element in newly emerging economies in Eastern Europe, in Asia, and in the Middle East. African nations as well are participating more fully in the WTO than in the past.
- *Creation of a dynamic forum for trade liberalization*: In establishing the WTO, we created a system that is responsive to rapid changes in technology and the needs of the 21st century. The WTO first set in motion and then realized agreements in financial services, basic telecommunications services and information technology, whose outcomes are larger in scope than the totality of the results of the Uruguay Round; and by setting a built-in agenda to continue in agriculture and services this year.
- *High Technology*: The dynamism of the WTO has kept the trading system current with technological development, providing real benefits to business and consumers – through its work on the Information Technology Agreement, Basic Telecommunications, Financial

Services, electronic commerce and other initiatives. Since the Basic Telecommunications Agreement came into effect, for example, rates paid by U.S. consumers for international service to most foreign destinations have declined significantly. From 1996 to 1998, the average price of an international long distance call declined from 74 cents per minute to 55 cents per minute, a 25% decline. On highly competitive routes, such as the U.S.-UK route, prices have fallen even more dramatically, to as low as 10 cents per minute. Although aggregate data for 1999 are not yet available, indications are that the trend toward lower rates has continued and that the current average price worldwide is well below 55 cents per minute.

- World Economic Stability: The WTO has also strengthened the world's ability to address economic crises. During the financial crisis of 1997 and 1998, for example, the respect WTO members, including ourselves, showed for open market commitments helped to prevent a cycle of protection and retaliation similar to that of the Depression era, ensuring affected countries the access to markets they needed for recovery, and minimizing damage to American farmers and manufacturing exporters.
- Greater Openness and Accountability: While, as I will note later, we are not satisfied with the WTO's progress toward full transparency, we also recognize that in five years, the WTO has moved forward on these issues by making a majority of its documents available to the public, reaching out via symposia and other means to the NGO community and by creating a Web page. All of the WTO Ministerial Meetings held thus far – in Singapore, Geneva and Seattle – have enjoyed strong NGO participation.

THE WTO IN AMERICA'S ECONOMIC BOOM

These policy achievements, in turn, have helped to facilitate an expansion of American goods and services exports, despite the effects of the Asian financial crisis, by 55% since 1992. This is especially important, as export-related jobs typically pay 10-15% above the average U.S. wage. Together with domestic policy measures such as the improvement of fiscal discipline since 1993 and increased investment in education, the trading system has thus made a remarkable contribution to our prosperity in the past five years. By opening markets, advancing the rule of law and promoting competition, the WTO has contributed to a record of:

- Growth: The U.S. economy has grown by \$2.2 trillion, from \$7.0 trillion in 1992 to \$9.2 trillion in 1999. To put this figure in context, only two countries in the world apart from the United States have a GDP totaling \$2 trillion or greater.
- Jobs: U.S. employment has grown by over 20 million, as unemployment levels dropped from 7.3% to 4.0%. This is the lowest unemployment rate since January of 1970.
- Rising Living Standards: American living standards are rising, as hourly wages for nonsupervisory workers are up by 6.8%. At the same time, openness to imports has

helped to keep inflation low, broaden choice and improve consumer prices especially for basic household necessities. This is especially important for the poorest families.

- Investment: Since creation of the WTO, U.S. non-residential business investment has risen at 10.8% per year.
- Shared Benefit: Americans have broadly benefitted from our expansion, with poverty rates falling to the lowest level measured since 1979, and unemployment at record lows for African-Americans and Hispanics.

A final point to note is that in the past five years, the U.S.' share of world foreign direct investment has sharply increased, with foreign countries investing more than \$400 billion in America. Many had expressed fears that a more open world would promote investment in countries with weaker labor and environmental standards. Investment decisions obviously have many causes, but experience shows that our high standards have not been any sort of a deterrent to investment in the United States.

REASONS FOR SEATTLE DEADLOCK

Let me now turn to an analysis of the Ministerial, and then to our next steps.

As the record -- both of the past five years and of the past fifty -- indicates, developing the trading system has been work of profound importance. It has therefore always been difficult: nations always have entrenched interests which benefit from the status quo, and at each point along the road, governments must make politically difficult choices to serve the greater good.

It should therefore be no surprise that we at times have encountered deadlocks. This happened at the creation of the trading system, in which the founding of the GATT in 1948 built upon a failure to set up an "International Trade Organization" in 1947. The creation of the WTO five years ago followed a failed attempt to launch a Round in 1982, a mid-term breakdown in 1988, and failures to conclude the Round in 1990 and 1993. More recent negotiations on financial services and telecommunications also broke down in 1996 and 1997, in all cases to be followed by success.

The experience in Seattle was similar to many of these previous negotiating deadlocks. While broadly supportive of a Round, a number of major WTO members were reluctant to commit themselves to a negotiating agenda covering issues that are genuinely difficult.

Most important, any new Round must clearly have as a central goal the rapid reform of agricultural trade. This is a commitment the WTO made long ago, when in 1995 it adopted a "built-in agenda" requiring the opening of agricultural talks this year. This poses a special challenge to the European Union and Japan. However, developing countries also have diverse interests and agendas, which a Round must take into account, and we in the U.S. have sensitive

areas as well. All of us must be willing to look hard at our agendas and consider ways to accommodate a number of the concerns of our trading partners to move forward.

We knew well before the Ministerial, of course, that a new Round would involve difficult issues. But an agenda that does not take on the difficult issues is one of little real-world consequence. Over the long run, WTO members have been able to overcome their differences; on this occasion they did not. WTO members began to harden their positions rather than coming to consensus, and the negotiations proved unable to bridge the gaps.

WTO AGENDA FOR 2000

Since then, we have been consulting with our trading partners and with Director-General Moore on ways to move ahead. As we do so, we view it as of fundamental importance that the WTO acts on the issues immediately before it: the implementation of core agreements under the Uruguay Round, the opportunity to promote development and integration for the poorer countries, the decision by China and a number of other countries to join the WTO and the commitment made in 1995 to open negotiations on agriculture and services this year.

1. Implementation of Agreements

To begin with, a set of WTO agreements covering intellectual property, trade-related investment measures, customs valuation and other issues come fully into force this year, when remaining transitions expire. It is crucial that this proceed smoothly. We are meeting our own commitments, of course, in areas such as textiles. And in case of outright refusal to keep promises, we will not hesitate to use dispute settlement to enforce compliance.

But we also recognize that these agreements are complex. Some countries have genuine difficulty implementing them despite making sincere efforts to do so. In such cases, our preferred approach is to work through the problems on a practical, constructive and pragmatic basis. That is the best way to ensure that we address the fundamental concerns countries have, and preserve the integrity of the balance of rights and obligations all of us have taken up. Likewise, we are willing to review concerns others may have about our own implementation of agreements.

2. Least Developed Nations

WTO members must also act with greater generosity of spirit toward the least developed countries.

Part of this is greater market access for the poorest countries. We are prepared to do this unilaterally, as the President stressed in his State of the Union Address, by securing passage this year of legislation further opening U.S. markets to goods from Africa and the Caribbean. This is of fundamental importance to growth and sustainable development for the people of these regions, and will also help them become better markets for our own products.

Equally crucial, we must develop better means to help these countries participate fully in the trading system. Many of them come to the table with less experience in trade policy and at times fewer resources to devote to it. They often rightly feel they have difficulty in asserting their rights and interests in the WTO. A proposal we introduced last year, together with Bangladesh, Lesotho, Nigeria, Senegal and Zambia, to improve the technical assistance and capacity-building programs available from the WTO and other international institutions, can serve as a starting point.

3. WTO Accession for China and Others

Likewise, the WTO is considering the accession of 31 economies. A number of these negotiations are well advanced: we expect Jordan and Georgia to enter in the very near future; we have also completed our bilateral negotiations with Albania, China, Croatia, and Taiwan; and have had significant progress with a number of other countries. Each case will mean significant trade liberalization, bounded by the rule of law.

Let me say a few special words about the completion of China's entry into the WTO. This is a critical goal for the WTO this year. The economic liberalization and opening to the world China will make as part of its WTO accession have the potential to support reform in China, create opportunities for China's trading partners, and ultimately help to stabilize peace in the Pacific. And simply from the perspective of the trading system, a status quo in which the world's third-largest economy does not need to follow WTO rules is an enormous source of distortion and uncertainty. The China accession is thus a central task for the WTO, and must move ahead this year.

This will require expeditious action, first of all by those WTO members which have yet to complete their own negotiations with China, and second by the entirety of the WTO's membership on rules issues. It is a complex task, but one which is manageable for the WTO and should be completed soon. As part of this process, the United States must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including special import protections, and rights to enforce China's commitments through WTO dispute settlement, among other means. If Congress were to refuse to grant permanent NTR, our Asian and European competitors will reap these benefits of the agreement we negotiated with China, but American farmers and businesses may well be left behind.

4. Built-In Agenda Negotiations and Work Toward New Round

Finally, with this work proceeding, we must look to the future. The core elements of the negotiating agenda are before us, in the opening of talks on agriculture and services, as required under the "built-in agenda" WTO members agreed upon in 1995. These are the sectors in which markets remain most distorted and closed, and in which the opening of trade will mean perhaps most to future prospects for rising living standards, technological progress, and sustainable development.

I am pleased to report that WTO Members are moving forward on this agenda. The WTO General Council yesterday set dates for the initial meetings for the negotiations on services and agriculture, and our expectation is that the important work for those negotiations will proceed. That will include the development of negotiating proposals this year, a matter on which we will be consulting with Members, the private sector and other interested Americans in the days ahead. The work has just begun, and we will soon publish a notice in the Federal Register seeking comments from all interested parties as we begin the process of developing proposals for these negotiations. But our view of the initial steps is as follows:

- In agriculture, the WTO Agreement on Agriculture, with binding commitments on market access, export subsidies and domestic support, provides the basis on which to pursue further agricultural reform. Useful preparatory work has already been accomplished through the WTO Committee on Agriculture over the last three years, where countries have identified key issues and their interests.

We are now working with other countries to ensure discussions in Geneva focus on substantive reform proposals. Our work last year enabled us to identify general negotiating objectives, such as eliminating export subsidies; reducing tariffs; expanding market access opportunities for products subject to tariff rate quotas, including better disciplines on the administration of those TRQ's; reducing trade-distorting domestic support levels; and ensuring that the operation of agricultural state trading entities are more market-oriented. We also want to ensure access for biotechnology products.

We are now developing specific proposals to implement these objectives. While specific negotiating timelines have not been established by the Uruguay Round, the expiration of the agricultural "peace clause" in 2003, and continued domestic farm reform efforts in the United States, Europe and other countries, should help to move the negotiations forward.

- In services, we are developing negotiating proposals for a wide range of sectors where our companies have strong commercial interests, including, energy services, environmental services, audiovisual services, express delivery, financial services, telecommunications, professional services, education and training, private healthcare, travel and tourism, and other sectors. Our companies are poised to be among the primary beneficiaries from stronger services commitments in the WTO.

Broadly speaking, our objectives are to remove restrictions on services trade and ensure non-discriminatory treatment. We also need to ensure that the commitments we obtain accurately reflect our companies' range of commercial activities. For example, the GATS definition of environmental services does not include recycling services, an area where U.S. companies are leaders. We want to fix this and similar deficiencies in the GATS.

Our proposals must also reflect the many different means U.S. service providers use to meet the needs of their foreign customers. This includes U.S. companies that establish

operations overseas – for example, as a branch or subsidiary; that deliver their services electronically – by phone, fax, or the Internet; or that depend on individual personnel to “export” services – for example, Americans that perform short-term consultancy services in a foreign country.

Beyond these mandated negotiations, we have pressing needs to address market access concerns in non-agricultural products, electronic commerce, issues related to trade and the environment, trade facilitation, and perhaps other topics as well. Thus, while there are a number of different options for proceeding with trade liberalization beyond the agricultural and services sectors, we working to build consensus for a new Round.

To build a consensus for such a Round will not be a simple task. However, the outlines can be drawn, if WTO members prove willing to rethink some of their positions, focus more fully on the shared benefits of success, and find the balance that allows us to move ahead. As the President has said, we will keep working toward consensus; we are willing to be flexible, and expect our trading partners to do the same.

WTO REFORM

Finally, let me turn to the criticisms the WTO has received and the questions of institutional reform.

The protests and internal criticisms of the WTO were not at the heart of the negotiating impasse in Seattle. However, they raise issues that require a response. Only through openness and willingness to listen to its critics will the trading system retain the broad support of the public and its member governments over time.

This does not mean that all criticisms are valid. Indeed, part of the response must be a rejection of unsubstantiated and more radical criticisms. The core vision of the trading system is right: opening markets in the past decades has sparked growth, reduced poverty and strengthened peace. The creation of the WTO here in the United States has brought this still further: by cutting tariffs, it has been the equivalent of a \$750 billion global tax cut, whose benefit goes largely to less prosperous families which devote more of their income to food and basic necessities. It has helped America’s farmers, working people and businesses find new markets overseas. And as our import growth has shown, it has helped to raise living standards, dampened inflationary pressures and broadened consumer choice, while creating new opportunities for our trading partners. Most recently, during the Asian financial crisis the respect WTO members showed for open market commitments helped to prevent a cycle of protection and retaliation similar to that of the Depression area, ensuring affected countries the access to markets they needed for recovery, and minimizing damage to farmers and manufacturing exporters worldwide.

To begin reversing the work we have done would be irresponsible and damaging in the extreme. Workers in poorer countries would lose jobs as industrial markets closed; living

standards of the poor in America and other industrialized countries would fall as the price of food, clothing, shoes and other essential goods rose. Hopes of rising labor and environmental standards would be deferred, as countries which suffer from grinding poverty have little time or resources for clean air enforcement and factory inspection. And a crucial support for peace would weaken, as the stake nations now have in one another's prosperity and stability beyond their borders diminished.

But the WTO must also be willing to listen to and act upon legitimate criticisms and incorporate new ideas. Most immediately, it must address concerns about transparency which are valid and can be easily remedied. This is especially important in dispute settlement, where the current practice is to close arguments to the public. Historically, the practice dates from an earlier era, in which dispute settlement largely meant mediation and negotiation. But today, dispute settlement is a more adjudicative process. In such a process, what once was privacy becomes a harmful secrecy that reduces public confidence in decisions.

If this remains unchanged, public confidence in the system will erode. As a first step, at our US-EU Summit in December, we proposed that we and the EU, as the largest users of WTO dispute settlement, immediately agree to open the arguments in our transatlantic disputes. Thus far, to our regret, the EU has refused. But it is quite clear that this issue threatens to erode public confidence in the WTO and its work, and must be addressed sooner rather than later.

Likewise, the WTO's internal processes can be improved and updated. Since 1986, when the Uruguay Round opened, the WTO has grown by over 50%, from 90 to 135 members, with more to follow this year. It is not only larger but more diverse, ranging from the world's most developed to its poorest countries, and covering each point of the spectrum in between. Each of these members has different priorities and interests, adding to the complexity of negotiations. Over time we should develop a more effective means of ensuring both participation and efficient consensus-building. Director-General Moore has begun consultations with WTO members toward this end. However, as we address the issue, we must be careful not to alter the principle of consensus for decision-making in the WTO. And we must also ensure that such procedural discussions do not distract us from taking immediate action on core policy issues.

There are also clear areas in which the WTO can do more to help environmental protection. These include elimination of environmentally abusive subsidies, such as fishery subsidies which contribute to over-fishing; elimination of barriers to trade in environmental goods and services; and the disciplining of agricultural subsidies, including the elimination of agricultural export subsidies.

And we believe the WTO can contribute to the advance of internationally recognized core labor standards. Its current refusal to discuss the links between trade and labor cannot be justified. It can also cooperate more actively with the International Labor Organization on a number of issues.

We should also, however, draw lessons for the future from our experience in Seattle in these areas. While our environmental proposals won a substantial amount of support, we received at times intense criticism for pressing to open a discussion of trade and labor. If we are to move forward, I believe we must address more effectively the reasons many developing countries are suspicious of these discussions. Few want to specialize in low-wage industries; almost all would prefer highly skilled, healthy and prosperous work-forces. But most also fear discrimination against their products that would block development and perpetuate poverty. Clearly, our proposals in this area have no such intention and would have no such effect. But if the trading system is to play a role in achieving the shared goal of improving labor standards -- as it should -- we must find ways to allay these concerns.

USTR BUDGET

Finally, Mr. Chairman, in the context of our ability to meet the totality of these challenges, let me raise one final issue.

Yesterday, the president transmitted his budget to the Congress. In it, he is recommending funding for USTR at \$28.3 million and 190 staff. This represents an increase of \$2.8 million and 12 full-time positions. In addition, the President's initiative on enforcement includes additional resources for our agency. Thus, this budget, like the previous two the President has submitted, calls for funding increases, to match the escalating workload our agency has at home and worldwide.

As you know, USTR is certainly one of the leanest and I believe most cost-effective agencies in the Federal government. When we began, we were an agency designed to coordinate policy, drawing on the resources of other agencies. Today, we have tremendous statutory obligations, together with complicated and demanding interactions with nearly 200 foreign trade partners and a very wide spectrum of Americans. As the Appropriations Committee begins considering this budget request, I ask your support as our authorizers for the addition of these 12 new positions to our team. To fulfill our mission most effectively, we need additional support not only at the WTO, but with respect to agriculture, Africa, China, Japan and several other areas. I hope you will support this request.

CONCLUSION

In conclusion, then, the WTO faces a number of challenges in the coming year, from proceeding on the built-in agenda for agriculture and services, to implementing prior agreements, bringing in new members, improving the ability of the least developed countries to participate, reforming its institutions, and working toward a new Round. To meet these challenges is a responsibility that all WTO members share. None of these are easy or simple; but others have shouldered equally difficult tasks in the past.

And the record of the past fifty years should give us a great deal of confidence. Taken as

a whole, the multilateral trading system has promoted the rule of law, created new opportunities for worldwide economic growth, and created opportunities for Americans. This amply justifies the decision Congress took five years ago to support creation of the WTO as a successor to the GATT. And it should remind us how significant will be the rewards of success as we take up the challenges of the new century.